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BEFORE THE ARIZONA CORPORATIO.

ARIZONA PUBLIC SERVICE COMPANY - ) DOCKET NO.  
 IN THE MATTER OF THE SALE AND ) E-01345A-08-0426  
 TRANSITION TO ELECTRICAL DISTRICT )  
 NO. 3 OF CERTAIN FACILITIES IN )  
 PINAL COUNTY PURSUANT TO A.R.S. )  
 §40-285(A) AND TO DELETE PORTIONS )  
 OF ITS CERTIFICATE OF CONVENIENCE ) AGENDA ITEM NO. U-19  
 AND NECESSITY WITHIN PINAL COUNTY )  
 ) OPEN MEETING

At: Phoenix, Arizona

Date: June 23, 2009

Filed: JUL 08 2009

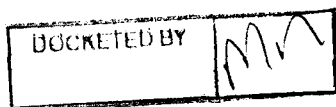
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REPORTER'S TRANSCRIPT OF PROCEEDINGSAGENDA ITEM NO. U-19

VOLUME I - (Pages 1 through 68)

Arizona Corporation Commission  
 DOCKETED

JUL -8 2009



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1 BE IT REMEMBERED that an Open Meeting was held at  
2 the Arizona Corporation Commission, 1200 West Washington  
3 Street, Phoenix, Arizona, commencing at 10:00 a.m. on the  
4 23rd day of June, 2009.

5

6 BEFORE: KRISTIN K. MAYES, Chairman  
GARY PIERCE, Commissioner  
7 PAUL NEWMAN, Commissioner  
SANDRA D. KENNEDY, Commissioner  
8 BOB STUMP, Commissioner

9

10 APPEARANCES:

11 For Arizona Public Service Company:

12 MS. MEGHAN H. GRABEL, ESQ.

13

For Electrical District No. 3:

14

MR. JOHN P. COYLE, ESQ.

15

16 For Arizona Corporation Commission Legal Division:

17

MS. JANICE ALWARD, ESQ.

18

19

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Certified Reporter  
Certificate No. 50489

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1 (1:50 p.m.)

2 CHMN. MAYES: Okay. If we can have the folks  
3 from ED-3 come forward as well, and we've got APS. Can we  
4 have somebody from APS and ED-3 represented at the table.

5 Great, terrific.

6 Okay, Judge Rodda.

7 ALJ RODDA: Thank you, Chairman Mayes,  
8 Commissioners. This order approves the sale of certain  
9 APS assets and the transfer of approximately 4,000  
10 customers from APS to Electrical District No. 3.

11 Through an interesting history, ED-3 and APS have  
12 come to have overlapping service areas and each serves  
13 customers in the affected area. This overlap has led to  
14 confusion and operational inefficiencies and potential  
15 safety weaknesses.

16 APS and ED-3 have reached an agreement whereby  
17 APS will sell to ED-3 its distribution assets as well as a  
18 substation and an inoperable 69kV line. ED-3 already owns  
19 the majority of assets in the area and serves 17,000  
20 customers of all class types.

21 Staff's engineers have opined that the proposed  
22 transfer is appropriate and reasonable from a network and  
23 system perspective and finds that ED3's system is capable  
24 of serving the load. Staff concludes that from a  
25 technical, safety, and reliability standpoint, the

1 proposal is in the public interest.

2           The recommended opinion and order adopts the  
3 parties' proposal to allow APS to make payments to  
4 customers under the RES tariff and DSM programs, provided  
5 the customers make application to APS within 90 days of  
6 the notice of the sale and complete the relevant RES  
7 project or DSM installation within 12 months from the date  
8 of the application, and allows APS to recover the related  
9 costs of the DSM projects under its DSM adjustment clause,  
10 which gives APS credit for the REST incentives.

11           The recommended opinion and order also grants a  
12 waiver of R14-2-203(A)(2) to allow APS to transfer  
13 customer information to ED-3.

14           And I have a very short Hearing Division  
15 amendment that corrects typos.

16           CHMN. MAYES: Thank you, Your Honor.

17           Staff want to add anything? No.

18           Okay. APS or ED-3?

19           MS. GRABEL: Nothing to add, but we're happy to  
20 field questions.

21           CHMN. MAYES: I have a number of questions.

22           And, sir, can you go ahead and reenter your name  
23 for the record.

24           MR. COYLE: John Coyle of the firm Duncan &  
25 Allen, Washington, D.C. for Electrical District No. 3.

1 And we had nothing to add to Judge Rodda's comments,  
2 either but we're happy to answer questions.

3 CHMN. MAYES: Thank you.

4 I'll get it started. I have some concerns about  
5 this item, and I'm not sure how I'm going to vote. I'm  
6 leaning "no" and will base my decision on the answers that  
7 I get today, and let me ask.

8 The reasons I'm leaning against this order are  
9 that I don't think it's fair to the consumers that would  
10 be transferred into this -- into ED3's service territory  
11 when it would appear from the record that ED-3 doesn't  
12 have comparable renewable energy programs, doesn't have  
13 comparable energy efficiency programs, and doesn't have a  
14 comparable low income assistance program.

15 And I know I attended the hearing. I asked a  
16 number of questions in the hearing, and I appreciate the  
17 work that was done. It looks like ED-3 has made some  
18 effort to develop a solar program in advance of this case.  
19 I'm not sure you would have if it hadn't been for this  
20 case.

21 But first question, for you, Mr. Coyle.

22 MR. COYLE: Yes, ma'am.

23 CHMN. MAYES: The low income customers, who are  
24 the people who are on APS's current low income tariff,  
25 will, as I understand it, be given a low income tariff on

1 ED3's system when they're transferred; is that correct?

2 MR. COYLE: Absolutely correct, yes, ma'am.

3 CHMN. MAYES: The existing customers.

4 MR. COYLE: That's correct.

5 CHMN. MAYES: What about future customers of that  
6 service territory? New people who would have moved into  
7 APS's service territory but will now be moving into your  
8 service territory who are low income, will they have  
9 access to a low income assistance tariff?

10 MR. COYLE: I'm not sure how we would track that,  
11 and so --

12 CHMN. MAYES: Couldn't you track it by developing  
13 a program for all of your customers?

14 MR. COYLE: I guess since that seems to be the  
15 point of your question, we could move right to that. And  
16 that was, we -- ED-3 investigated that possibility, and we  
17 were not insensitive to your interest in that issue.  
18 However, there are a number of substantial differences  
19 between ED-3 as a utility and Arizona Public Service as a  
20 utility.

21 One of the -- I'm trying to find my talking  
22 points on this particular issue, but one of the salient  
23 points is, we are a utility currently of 17,000 customers.  
24 We'll be 20,000 if the application is granted. That is a  
25 significantly smaller group of customers over which to

1 spread the cost of the discount. That's one consideration  
2 I think you want to bear in mind when you think about  
3 this.

4           The other is our rate systems are not the same,  
5 and that has been a significant consideration. There are  
6 actually certain rate categories and customer usage  
7 categories where the customers transferring from APS to  
8 ED-3 will pay lower rates under ED3's existing rate  
9 system. It would cost us something on the order of a  
10 quarter of a million dollars over 17,000 customers to  
11 modify our billing software in order to replicate APS's  
12 rate structure, which is one of the things that we would  
13 have to do.

14           So I don't want you to have the impression that  
15 we blew off your inquiry. We thought long and hard about  
16 it, and the ED-3 board continues to wrestle with how to --  
17 how ED-3 as a utility is able to support low income and  
18 medical assistance customers. It's a rural community,  
19 essentially, notwithstanding the amount of suburbanization  
20 that has gone on.

21           CHMN. MAYES: Well, not so rural as it used to  
22 be. I mean --

23           MR. COYLE: That's a fair point. Not so rural as  
24 it used to be.

25           CHMN. MAYES: Yeah. It's a fast --



1 COM. NEWMAN: The fastest growing area in the  
2 United States.

3 CHMN. MAYES: Yeah. It's a fast-growing area.

4 And I don't want you to think that I think that  
5 you blew me off. I don't. Because I read the record and  
6 I read the exhibits that were filed that you filed in  
7 response to some of my questions.

8 But, you know, I think this is a fascinating case  
9 to me, to be honest with you, because we are faced with  
10 this decision about whether to transfer 3,500 APS  
11 customers into the service territory of what used to be an  
12 irrigation ditch company. I mean, it was an irrigation  
13 company that turned into a retail electricity provider to  
14 17,000 people in one of the fastest growing counties in  
15 Arizona, if not the fastest growing, and that is a real  
16 interesting policy question.

17 And so when I looked at this, I weighed the  
18 question of whether -- I weighed the fact that it  
19 obviously looks like we're cleaning up a messy situation  
20 down there. It looks like spaghetti, you know, with two  
21 utilities providing service in the same general area.  
22 Kind of a mess. Staff says this is good from a  
23 reliability standpoint. Let's do this, let's separate  
24 these two. It's like the Hatfields and the McCoys down  
25 there, so let's get them separate to some degree. Let's

1 just separate them and get this fixed.

2 On the other hand, in my mind, you're talking  
3 about depriving, it looks like, because ED3's board hasn't  
4 made this decision yet on low income, renewable energy,  
5 and energy efficiency, or at least energy efficiency and  
6 low income assistance, it looks like we're going to be  
7 depriving 3,500 customers of what essentially is the gold  
8 standard in Arizona for renewable energy and energy  
9 efficiency, because that's what APS is right now.

10 And I don't see how that's a fair deal for these  
11 3,500 customers and for the future residents of this  
12 service territory, unless you guys can promise me today or  
13 give me some comfort level today that you're really moving  
14 in that direction, and I just -- I just don't see it yet.

15 MR. COYLE: Let me put it to you this way, and  
16 I'll try and keep this short. I had a much longer answer.

17 CHMN. MAYES: You can go ahead.

18 MR. COYLE: Were I to sit in your chair, one of  
19 the things that I would do would be to have some respect  
20 for the genius that animates your state constitution. You  
21 are an elected utility regulatory commission. You are the  
22 only constitutional regulatory utility commission elected  
23 in the country. So the framers of the Arizona state  
24 constitution had in mind that this Commission plays a  
25 significant role. It occupies a unique role in state

1 government in the United States.

2           The same framers had a significant amount of  
3 respect for local government running utilities and for the  
4 efficacy of local solutions to these issues. And what I  
5 want to suggest to you is that the framers of the Arizona  
6 constitution saw those two principles as co-existing.

7           Now, that's a philosophical answer, which  
8 absolutely means nothing to the inquiry that you put to  
9 me, so now I would like to address the concrete aspects of  
10 it. None of the customers that you're moving, or being  
11 asked to move in this case, are going to be harmed as a  
12 result of the transition that this Commission is being  
13 asked to approve. The ED-3 board has committed to hold  
14 harmless the low income customers who will be transferred.  
15 They transfer on absolutely the same basis that they would  
16 be treated by APS.

17           We are wrestling with how to expand a low income  
18 program. That is a decision that is a difficult one for  
19 the ED-3 board to come to terms with. And respectfully,  
20 it's not an issue that they have been able to resolve  
21 within the time frame provided by this case.

22           I want to give you my assurance that they take  
23 the inquiry and the concern very seriously. On some  
24 levels they feel they're already doing better than APS.  
25 On others, you run into the problem of, look, it's a

1 smaller utility with potentially a much larger base of low  
2 income customers. And yeah, we could, you know,  
3 hypothetically undertake a significant rate increase for a  
4 certain percentage of the customers to put in place  
5 something you like, but that's not -- that's not  
6 consistent with the principles that we think animate the  
7 decision-making that's entrusted to the ED-3 board.

8 I would also like briefly to address the energy  
9 efficiency, unless you want me to stop and --

10 CHMN. MAYES: No. I was just going to -- no, I  
11 was just going to ask you to address that. Because you  
12 say there's no harm, but I would suggest to you that based  
13 on the record in this case, that's exactly where the harm  
14 is, because there's -- you haven't developed energy  
15 efficiency programs, with the exception of -- I asked this  
16 question in the hearing: What energy efficiency programs  
17 do you have? And the answer from your witness was, well,  
18 Commissioner, we have an energy efficiency load control  
19 program for irrigation pumps.

20 Well, you know, I'm sorry, 17,000 people don't  
21 have irrigation pumps. And that utility that you want to  
22 take 3,500 customers from has ten, at least ten energy  
23 efficiency programs available to their customers, maybe  
24 more by now. Probably more. You know, and they have  
25 access to, you know, literally tens of millions of dollars

1 worth of energy efficiency programs.

2 So what are you offering them?

3 MR. COYLE: Let me address the irrigation pumps  
4 first, because that's not nothing. We, as part of our  
5 power supply contract with Arizona Public Service, were  
6 incented to go out and look at demand resource capacity.  
7 And what that compelled us to discover was that there was  
8 6 to 8 megawatts of low-hanging fruit on 175 megawatt peak  
9 that we needed to exploit. We believe that ultimately the  
10 size of that resource may be as large as 20 megawatts, and  
11 we are aggressively pursuing the exploitation of that  
12 resource. We expect to have the software in place to  
13 exploit the first 6 to 8 megawatts by the end of 2009.

14 CHMN. MAYES: Well, Mr. Coyle, I think that's  
15 great, but what about the other -- I mean, how many people  
16 on your system have irrigation pumps? Is it 17,000?

17 MR. COYLE: It's not.

18 CHMN. MAYES: Okay. What about residential  
19 consumers? What are you offering to those consumers?

20 MR. COYLE: One of the reasons that we don't have  
21 millions of dollars existing in our utility revenues  
22 currently to fund these programs is that what ED-3 has  
23 been doing over the seven-and-a-half years it's been my  
24 privilege to work for them is rebuilding --

25 COM. NEWMAN: I'm sorry. What did you say? I

1 didn't hear that, that last phrase.

2 MR. COYLE: The seven-and-a-half years it's been  
3 my privilege to work for them?

4 COM. NEWMAN: No. The program. You stated a  
5 program. I just didn't hear it.

6 MR. COYLE: I said, what we have been doing over  
7 the seven-and-a-half years it's been my privilege to work  
8 for ED-3 is rebuilding the utility infrastructure in the  
9 area. As Commissioner Newman pointed out, and as  
10 everybody is aware, that has involved a significant amount  
11 of construction of new distribution and also of  
12 construction of underground distribution. All new  
13 residential construction in the area is equipped for smart  
14 metering.

15 So I would suggest to you that we are as well-  
16 positioned as any utility in the state to implement things  
17 like direct load control. Why haven't we done it yet?  
18 Well, we have gone from being a 35 megawatt peak in  
19 2001 -- I'm reasonably confident in that statistic, but  
20 that's when I started working for them -- to being 170  
21 megawatts today. That's an awful lot of distribution  
22 construction, and that has been the focus, transmission  
23 and distribution construction has been the necessary focus  
24 of ED-3 to this point.

25 In doing that, though, the infrastructure that

1 has been installed is infrastructure that is fully capable  
2 of supporting some very sophisticated energy efficiency  
3 programs. Have we gotten to it? No. Do we plan to? You  
4 bet. It's low-hanging fruit. We have to.

5 I mean, there's a tremendous economic imperative  
6 to do that. And that economic imperative, again,  
7 respectfully, doesn't originate in this Commission. It  
8 originates in the economics of having to operate a public  
9 utility in this day and age.

10 But you can be confident that ED-3 has invested a  
11 significant amount of money in putting the infrastructure  
12 in place to support energy efficiency programs which we  
13 expect to be implementing and, indeed, we feel we have no  
14 choice but to implement.

15 CHMN. MAYES: But you can't describe for this  
16 Commission what those programs will be? I mean, I asked  
17 these questions at the hearing, and I haven't -- don't  
18 have an answer in front of me.

19 MR. COYLE: You're right. We are somewhat  
20 constrained in the sense that lawyers and consultants do  
21 not establish policy for ED-3. The ED-3 board establishes  
22 policy.

23 CHMN. MAYES: Uh-huh.

24 MR. COYLE: We have to be careful not to get  
25 ahead of the board. However, to the extent that you can

1 glean from the investments that have been made to date  
2 over the last seven-and-a-half years, those investments  
3 necessarily presage a significant amount of energy  
4 efficiency programs on the residential level.

5 CHMN. MAYES: Okay. Page 8 -- and then I'll go  
6 to my colleagues who I know have questions -- of your  
7 late-filed exhibit states that -- and this is on  
8 Line 12 -- once the capital funding available under ED3's  
9 distributed solar generation rate accrues to sufficient  
10 levels, ED-3 plans to use those funds to construct  
11 photovoltaic installations on ED-3 buildings and other  
12 locations.

13 Am I reading this correctly that you plan on  
14 spending all of that ratepayer money on your own  
15 buildings?

16 MR. COYLE: No.

17 CHMN. MAYES: What does that mean?

18 MR. COYLE: What I would understand it to mean is  
19 that ED-3 intends, as part of its regular capital  
20 budgeting, for its utility to include photovoltaic  
21 installations on ED-3 buildings.

22 CHMN. MAYES: It says, sir, under ED3's  
23 distributed solar generation rate.

24 MR. COYLE: I heard the words. I think I wrote  
25 the words. I think I better fall on my spear over the



1 words if they incorrectly convey the intention. The  
2 intention is that the solar rate is to accrue funds to be  
3 used for the development of residential distributed  
4 generation and commercial distributed solar, and that the  
5 installations on the ED-3 buildings will occur as part of  
6 the ED-3 capital budgeting process. And if I didn't  
7 convey that correctly, that's my bad and I'm sorry.

8 CHMN. MAYES: I appreciate that.  
9 Commissioner Kennedy.

10 COM. KENNEDY: Thank you, Madam Chairman. Madam  
11 Chairman, if Staff could kind of help me out a little bit.  
12 Who regulates these electrical districts?

13 MS. ALWARD: Chairman, Commissioners, Janice  
14 Alward on behalf of the Legal Division. They're  
15 considered a municipality under the constitution and under  
16 statutory provisions, so they have their own board that  
17 regulates them. I'm presuming that that board is elected  
18 by the members or appointed.

19 COM. KENNEDY: So Madam Chairman, Ms. Alward,  
20 they can raise rates at any time they want, two, three,  
21 four times a year if they wanted?

22 MS. ALWARD: They are self-governing.

23 COM. KENNEDY: Self-governing. Thank you, Madam  
24 Chairman, Ms. Alward.

25 CHMN. MAYES: Thank you, Commissioner.

1 Commissioner Newman.

2 COM. NEWMAN: Thank you, Madam Chairman.

3 First of all, just one question, say your name  
4 again for the record?

5 MR. COYLE: John Coyle.

6 COM. NEWMAN: Mr. Coyle, you represent a firm  
7 that represents the electric district; is that right?

8 MR. COYLE: That's correct.

9 COM. NEWMAN: And it's in D.C.

10 MR. COYLE: That's correct.

11 COM. NEWMAN: And is there a local attorney and a  
12 D.C. attorney?

13 MR. COYLE: I'm admitted pro hac vice before the  
14 Commission, working with Mr. Orme, Paul Orme, who is the  
15 general counsel for ED-3.

16 COM. NEWMAN: I noticed his name on the  
17 pleadings.

18 MR. COYLE: Yeah.

19 COM. NEWMAN: Is he present today?

20 MR. COYLE: No, sir, he isn't.

21 COM. NEWMAN: Is there any other member of the  
22 electrical district, either a member of the board or  
23 anyone in the room today that might be able to take some  
24 questions from a Commissioner?

25 MR. COYLE: Sure. Yeah, we have the general

1 manager, Bill Stacy is here. The chief financial officer,  
2 Brett Benedict is here. Mr. Benedict offered testimony,  
3 offered prefiled testimony and has served as a witness  
4 only because he was acting general manager at the time  
5 that the testimony was filed.

6 We also have Ken Saline, Jeff Woner, and Jerry  
7 Smith, formerly of Commission Staff, all currently at  
8 K.R. Saline & Associates, who are actively involved in  
9 advising ED-3 in its day-to-day operations. So any of  
10 those would be available for questioning.

11 COM. NEWMAN: Who would you advise, to cut to the  
12 chase, to -- questions that were put to you by Madam  
13 Chairman, but I have -- but I want to speak to an Arizona  
14 resident who has some control and who can represent the  
15 electrical district today, if I can. Who would you  
16 suggest that I call?

17 MR. COYLE: You can -- well, if you give me a  
18 moment to confer, I'll have them nominate somebody.

19 COM. NEWMAN: Okay. That would be fine.

20 CHMN. MAYES: That would be great. I noticed  
21 that several of them did testify in the hearing, so --

22 COM. NEWMAN: And I'm sorry I missed the hearing.  
23 In fact, I was around the days of the hearing, but --

24 MR. COYLE: Well, we can bring them all up and I  
25 would be happy to get out of your way.

1 COM. NEWMAN: No, just one. Who -- I mean,  
2 they'll probably know who they want to put up.

3 MR. COYLE: Sure.

4 CHMN. MAYES: Go ahead. Take a minute or two.

5 MR. COYLE: If I may be excused.

6 (A brief discussion was held off the record.)

7 MR. COYLE: Allow me to introduce Bill Stacy, who  
8 is the general manager of ED-3.

9 COM. NEWMAN: Thank you.

10 MR. STACY: Good afternoon.

11 COM. NEWMAN: Thank you. Very nice to meet you.  
12 Just state your name for the record.

13 MR. STACY: My name is William Stacy. I'm the  
14 general manager at ED-3.

15 COM. NEWMAN: Okay. I just want to tell you, I  
16 had planned last week -- I've not been well the last two  
17 weeks. I have been a little ill. And I had planned to  
18 take a trip out to Pinal County just to see this area,  
19 wasn't able to do it last week, and I read the -- I read  
20 the paperwork concerning the matter, but I didn't attend  
21 the hearing.

22 And at first when I heard about it, I understood  
23 that this is sort of an underserved area and I sort of  
24 could understand why APS would want this proposal to go  
25 through. However, I want to tell you that the concerns of

1 the Chairwoman, I share those concerns, and I'll give you  
2 this scenario. In essence, it's sort of like APS -- I  
3 mean, if you -- apples for apples, oranges for oranges, as  
4 an analogy, it would be like -- I don't think APS would do  
5 this -- but APS giving up 3,500 of its customers to SRP,  
6 and the Commission has no control over what SRP does.

7 So getting back to your representative from  
8 Washington, D.C.'s statements, yes, we have an incredible  
9 authority at the Commission. And one looking at this  
10 issue might say: Why would the Commission, if they have a  
11 constitutional duty to protect consumers in Arizona, give  
12 all of these customers to an entity that they have no  
13 regulation over?

14 Do you have a response for that?

15 MR. STACY: Well, I think as Staff had pointed  
16 out, there's safety issues with redundancy of the lines.  
17 There's efficiencies. Instead of having two power lines  
18 going down either side of the road, it makes a lot of  
19 sense to just have one power line. We have billing issues  
20 because there's two utilities working in the area.

21 And then I think if you look back, ED-3 has a  
22 proud history in Arizona dating back to 1926, and our  
23 board is a very responsible board governing the consumers  
24 of this area. We've seen tremendous growth. We've been  
25 able to handle it. We've grown our system and installed

1 about \$115 million in plant over the last five or six  
2 years, and we are very progressive in what we're doing.

3 I think if you look at ED-3, we have more -- I'm  
4 just guessing, don't let me quote this -- but more  
5 automated meter reading and abilities for smart metering  
6 in the future than APS has. We planned for these  
7 3,500 meters. We've already moved ahead with installing  
8 some automated metering equipment in some of our  
9 substations to be able to handle all of these consumers so  
10 that we can remotely read their bills, know exactly -- you  
11 know, our goal is to have future outage management systems  
12 so we'll know almost instantaneous when these customers  
13 are without power.

14 And yeah, we have moved ahead with some renewable  
15 energy. We just -- we have just signed one customer, our  
16 first customer up on the solar program, and we have -- so  
17 that's one out of 17,000, and we've got four or five more  
18 applications on the line. I mean, we have net metering in  
19 place to handle these things. So I think that you will  
20 see we are very progressive in moving forward and  
21 providing things for our consumers.

22 COM. NEWMAN: It's a very -- as good an answer as  
23 you can possibly give, except that you recognize that  
24 jurisdictionally we just have to -- if we go ahead with  
25 this today, we have to trust that you would be doing the

1 same things that we -- that the Commission would want you  
2 to do if you were APS customers. It is a very tough  
3 issue. And I think I know some other representatives from  
4 your company. Like I said, I was looking forward to going  
5 down and seeing some of this service territory.

6 But I actually think that it sets a very -- it  
7 could set a very, very important and difficult precedent  
8 for this Commission to sort of give away the authority  
9 that the constitutional founders gave to us.

10 I see that your D.C. counsel is raising his hand.  
11 You can answer me. I just -- it's rhetorically. I'm not  
12 going to go into any more questions. I wanted to hear it  
13 from the board. I wanted to hear it from a representative  
14 of the company, but you didn't give me a -- I mean, you  
15 said that you'll do the right thing. But do you want to  
16 respond to jurisdiction?

17 MR. COYLE: Yeah. I mean, I don't mean to beat  
18 the point to death, but --

19 COM. NEWMAN: I don't either.

20 MR. COYLE: -- but your state constitution  
21 recognizes that the ED-3 board is in some respects a body  
22 entitled to correlative respect, that which is given to  
23 this body. They are responsible for maintaining just and  
24 reasonable rates, terms, and conditions to service the  
25 people that they serve, and your constitution, your state

1 constitution trusts them to do it.

2           So, you know, when you say giving it up, I mean,  
3 I understand the perspective and I respect the  
4 perspective. And I would ask this Commission to respect  
5 the judgment that your framers made in Article 13,  
6 Section 7 of your state constitution that says for a  
7 public body to regulate a utility is permissible in this  
8 state for an elected board like ED-3. And your framers  
9 had confidence in that institution, and I think you  
10 should, too. And I think Mr. Stacy has given you ample  
11 reason, as does the record in this case, to have that  
12 confidence.

13           COM. NEWMAN: Well, the problem with it is  
14 whether or not it's unfair regulation, though. For  
15 example, we regulate our rural co-ops, which I would note  
16 are similarly situated, you know, in terms of this being a  
17 rural district. And we trust that the board of directors  
18 of the rural co-ops will do the right thing, but we also  
19 have jurisdiction of them -- over them for these RES  
20 standards and otherwise.

21           And to be honest with you, unless you submit a  
22 little bit stronger statement to me that you will  
23 voluntarily submit to renewable energy standards and the  
24 other standards that we're putting on the utilities who we  
25 regulate, I'm going to -- you know, I'm looking hesitantly



1 on this proposal. I recognize, you know, the right of  
2 your company to do business, but we're in a very important  
3 time in electricity deregulation, and we're trying to  
4 promote Arizona as a leader in solar energy. The company  
5 executive just said he has one customer in 17,000. That  
6 is not what I would call a stellar performance up to right  
7 now.

8           So, I mean, I don't feel comfortable today in  
9 giving you a yes. I actually think that this needs to be  
10 negotiated more. That's my position. And I understand  
11 what you're saying. I'm not trying to discriminate  
12 against you. I'm just trying to say that we're not --  
13 would we be abrogating our power and the customer's power  
14 by giving it up to this sector without having any control  
15 over it? Unless you wanted to sign more documents with  
16 this agreement. And this is the first time I'm hearing  
17 about it. I know that we have an order. I know we have  
18 recommendations of utility companies. I'm having a tough  
19 time with it.

20           CHMN. MAYES: Go ahead, Mr. Stacy.

21           MR. STACY: Well, I just wanted to point out that  
22 we have, over the last year or two, we have moved ahead  
23 with rooftop solar. We are in the process -- we have net  
24 metering in place. We are being very progressive on  
25 moving forward with renewables and things to that effect.

1 But you have to keep in mind, you know, ED-3 gets  
2 about 28 megawatts of hydro right now currently. We have  
3 long-term contracts with APS, which somewhat limit us to  
4 going out and just building or buying renewable energy.  
5 You know, so that does handicap us quite a bit to moving  
6 forward in those areas.

7 I guess unless you can consider that, you know,  
8 two-thirds of our electricity comes from APS, and they are  
9 already, you know, instigating those programs, in essence,  
10 for us. We are, you know, moving forward very quickly in  
11 the ways that we're trying to be progressive on these  
12 items.

13 CHMN. MAYES: Thank you, Mr. Stacy.  
14 Commissioner Kennedy.

15 COM. KENNEDY: Madam Chairman, my question is to  
16 Ms. Alward. Madam Chairman, Ms. Alward, if we were to do  
17 nothing today and maybe postpone this for a future Open  
18 Meeting agenda, could we?

19 MS. ALWARD: Chairman, Commissioners, if the  
20 Commission would determine that they would like to pull  
21 this matter from this agenda, it could do so.

22 COM. KENNEDY: Okay. Madam Chairman, I really am  
23 feeling uncomfortable, and I know that some folks have  
24 come here from such a long way. I'm really surprised that  
25 there's no board member, local board member here to

1 address some of the issues and questions. And I'm feeling  
2 very uncomfortable about voting on it today and would like  
3 to see it pulled and maybe put on a future agenda.

4 CHMN. MAYES: Okay. Again, I think that's  
5 something that we ought to entertain.

6 Because, you know, I hear everything that you're  
7 saying, Mr. Stacy, and I think -- and, you know, I'm glad  
8 that ED-3 made the decision to move forward with a solar  
9 program. You know, I want to believe that you're in the  
10 process of developing some energy efficiency programs.  
11 And, you know, I don't believe that they have to be  
12 squarely on point with what APS is doing right now. I  
13 don't believe you have to do the renewable energy  
14 standard, you know, verbatim.

15 You obviously have a different service territory.  
16 It's obviously smaller and, you know, maybe you can't do  
17 these things cost effectively. And if you can't, then  
18 maybe it's just not in the public interest to transfer  
19 these customers. I mean, it is possible for this  
20 Commission to say no.

21 And Mr. Coyle, I absolutely understand that our  
22 founders believed in local control and that they set aside  
23 a place for municipal utility providers. But they also  
24 set aside Article 15, Section 3 of the Arizona  
25 constitution, and they spent more time on that than any

1 other section of the constitution.

2           So, you know, the question before this Commission  
3 is should we allow the transfer of these customers, this  
4 service territory, and the assets of this service  
5 territory from APS to ED-3. That's the question squarely  
6 before us and whether that action is in the public  
7 interest.

8           And we have to weigh all of the things that we've  
9 been discussing with the possible positive attributes of  
10 the transfer, and I wanted to ask Staff about that. And  
11 then I want to ask Mr. Froetscher and Ms. Grabel to answer  
12 this question.

13           Why is this in the public interest?

14           Mr. Johnson or Mr. Olea.

15           MR. OLEA: Madam Chair, Commissioners, Steve Olea  
16 for Staff. From a technical perspective, the reason it's  
17 in the public interest is for the reliability issues and  
18 the safety concerns. The safety concerns arise from  
19 having two utilities in the same area who sometimes run  
20 into trouble with coordination when they're working on a  
21 down item or an item -- or a live item if they have to  
22 work on, and they have to make sure that one utility knows  
23 what the other one is doing so that the power is truly off  
24 when it should be off and it's truly on when it should be  
25 on.

1 CHMN. MAYES: Have there ever been any actual  
2 safety situations, or was that discussed in the record?

3 MR. OLEA: I don't know of any, but that would be  
4 one that you could ask both APS and ED-3.

5 CHMN. MAYES: We'll do that in second. But let  
6 me ask you this, Mr. Olea. I understand the Staff  
7 believes that from a technical standpoint this is in the  
8 public interest from the standpoint of safety and  
9 reliability, although I want to -- I really do want to  
10 drill down on this question of whether there's ever been  
11 any safety concerns, or if this is sort of hypothetical  
12 and, you know, sort of projection.

13 But when Staff made its analysis, did it consider  
14 some of the factors that the Commissioners have been  
15 discussing, including whether future low income customers  
16 of this service territory which would be transferred would  
17 be deprived of low income tariffs, whether future  
18 customers of this service territory would be deprived of  
19 energy efficiency programs, and the same on the renewable  
20 energy side? Was that part of the calculus that Staff  
21 went through when it decided whether this was in the  
22 public interest, or did you only look at the technical  
23 aspects of this case?

24 MR. JOHNSON: Madam Chairman, Commissioners,  
25 Ernest Johnson, Utilities Division.

1           A couple of points. With regard to the earlier  
2 comment of Mr. Olea regarding safety and reliability, I  
3 would direct the Commission to Page 6, Paragraph 29, at  
4 Line 20. And there you will find a discussion  
5 specifically in the record regarding the reliability  
6 concerns that were raised in the proceeding. You may want  
7 to inquire further of the parties relative to additional  
8 details.

9           With regard to the issue of what did Staff  
10 consider in terms of reaching its conclusion that this  
11 activity would be consistent with the public interest, by  
12 way of initial comment, Staff considered the fact that at  
13 least at this time, according to Mr. Igwe, that there was  
14 a rate differential between the ED-3 customers and the APS  
15 such that -- he'll correct me if I misstate this -- such  
16 that there was a lower rate to be enjoyed by customers who  
17 would be new to ED-3. And that with regard to the further  
18 assurances that the company offered relative to those  
19 customers that would be transferred in the fact that they  
20 would be offered the low income rate.

21           Now, if I may just kind of cut to the point.  
22 With regard to the issue of the availability of certain  
23 DSM programs and energy efficiency programs, there was  
24 some discussion with the Staff relative to the solar  
25 project, but this is similar to other matters that you

1 have been looking at today. This comes down to a matter  
2 of judgment on the part of this Commission. Whether you  
3 entertain this matter today or at some other point in  
4 time, you need to have the assurance that those interests  
5 that you believe ought to be protected are, in fact, being  
6 protected. And so I will just share that with you.

7 CHMN. MAYES: Okay. Commissioner Pierce.

8 COM. PIERCE: Thanks, Madam Chair.

9 I remember the bill recently in the legislature  
10 to help us get to where we are.

11 Electrical districts and their history, and I --  
12 because there has been tension between APS and electrical  
13 districts over this is because the electrical districts  
14 and their history is they were created under the  
15 constitution to be able to service agricultural areas, and  
16 that was -- and I don't know that our founders ever  
17 expected the expansion into that and that those would be  
18 the providers at some point, or co-providers with someone  
19 else who has CC&N territory like APS does in this area.

20 But I really didn't think the founders believed  
21 that there would be multiple suppliers of the same thing  
22 with crisscrossing lines potentially in an area. I  
23 think -- and that's why I think we're getting to -- I  
24 don't know if it's an ideal conclusion, but we're getting  
25 to a conclusion here about how to operate.

1           And so really what we're being asked to do is set  
2 the stage for how these situations will be resolved in the  
3 future, and I think they do need to be resolved. I think  
4 that's -- and for us it may be, well, we're going to --  
5 for the Commission, we're not going to be able to regulate  
6 this circumstance, and we're going to be asked to do this  
7 again down the road probably as the state grows, and we're  
8 going to have to grapple with -- whether we like the term  
9 wrestle or grapple -- with the idea that we're not going  
10 to be able to dictate and control what goes on. Because,  
11 actually, the company, ED-3, could come in and have great  
12 policies in place today that their elected board tomorrow  
13 could change.

14           So I'm not going to sit and judge anything other  
15 than I know they're a separate entity that I have no  
16 control over, and once this happens they're going to take  
17 that ball and run with it, which the constitution has  
18 given them that right to do.

19           So it's just as simple as that. Is it the right  
20 move for the future? Is this the way we really want to  
21 head to make sure that we have one provider, one from all  
22 of the aspects, safety, duplication, which means  
23 somebody's paying too much if we're duplicating.

24           And so that's how I kind of look at this. All of  
25 the rest of it, all of the policy things that are in place



1 with APS, the people that we regulate, that's important.  
2 But really, I think it's important to have one provider in  
3 an area and have some elected body, which the electrical  
4 districts do, or the Corporation Commission doing their  
5 job. And I think there's nothing that has showed me that  
6 the electrical district boards have not been doing their  
7 job, and so I'm going to support this because I think that  
8 it is the logical next step as we progress.

9 Thank you, Madam Chair.

10 CHMN. MAYES: Thank you Commissioner Pierce.

11 Mr. Froetscher, if I could ask you why this is in  
12 the public interest? And also, before you answer that --

13 Judge Rodda, and I'm just not recalling it from  
14 the record, but I know it was addressed. Voting rights,  
15 the ability of the new customers to vote for this board,  
16 do the APS customers get to vote for the board? Because  
17 isn't it a landowner issue in these districts?

18 ALJ RODDA: That was addressed in the hearing,  
19 and I believe they have to petition to become members of  
20 the electrical district and to be -- to have their  
21 property assessed, and then they can vote for the Board.  
22 But just being transferred, they would not have voting  
23 rights.

24 CHMN. MAYES: Is the property being assessed  
25 right now though? No. So they would have to be taxed.

1 They would have to petition, they would get taxed, and  
2 then they get to vote?

3 ALJ RODDA: I'm sorry. That's my understanding.  
4 I think there are some APS customers who are being  
5 assessed, but since they're not customers, they're -- so  
6 they probably can vote, but who knows if they do. But  
7 that's probably a very small number.

8 CHMN. MAYES: But for the balance, for the vast  
9 majority, they're not -- they wouldn't currently be voters  
10 or constituents of ED-3. They would have to go through  
11 some process. And maybe Mr. Coyle or Mr. Stacy can talk  
12 about that process.

13 MR. COYLE: I think essentially you had it right,  
14 Madam Chairman, that there are currently APS customers who  
15 are within the boundaries of the district whose lands are  
16 taxed who can vote for ED-3 board members.

17 CHMN. MAYES: How many of those, Mr. Coyle?

18 MR. COYLE: I don't know off the top of my head.  
19 Mr. Froetscher might know.

20 MR. FROETSCHER: Madam Chairman, Dan Froetscher,  
21 Arizona Public Service Company.

22 Of the estimated 3,800, 3,900 customers who we  
23 are contemplating transferring to ED-3, I would guess that  
24 about 2,500, 2,600 of them reside within what are the  
25 existing electrical district statutory bounds, and,

1 therefore, subject to the district taxing and other  
2 policies that the district has and should be eligible to  
3 vote for board members.

4 CHMN. MAYES: Okay. I'm sorry, Dan. Say that  
5 again, the number. Of the 3,800 --

6 MR. FROETSCHER: Estimated 2,500 to 2,600 of the  
7 3,800 to 3,900.

8 CHMN. MAYES: They are currently voters?

9 MR. FROETSCHER: Are within the bounds of the  
10 statutory -- are within the statutory bounds of the  
11 electrical district, and, therefore, to the best of my  
12 knowledge, should be eligible to vote for board members  
13 and probably have their property subject to liens and  
14 other taxes that the district may choose to enact.

15 CHMN. MAYES: And how do the -- what is the  
16 process for them to become members or voters? Mr. Coyle?

17 MR. COYLE: That I can answer. Assuming you're a  
18 property owner, the district, the district's boundaries  
19 and eligibility to vote in the district depends on having  
20 lands that are subject to tax to support the district.

21 So if you're a property owner in the transferred  
22 area, one of the 1,300 or so who are not currently on the  
23 district tax rolls, you would petition to have your  
24 property incorporated into ED-3, and then you would get a  
25 right to vote for the board members.

1 I should add that the board, in addition to that,  
2 the board meets monthly, the meetings are noticed, they're  
3 open to the public, and they tend to be very well attended  
4 when people want to make themselves heard. And because  
5 there isn't any way to identify district voters versus  
6 district customers, the board isn't really in a position  
7 to discriminate on that basis, and they tend to be very  
8 attentive to anyone who wants to come forward and make  
9 themselves heard as a customer.

10 CHMN. MAYES: But I guess I'm making a comparison  
11 between what -- you know, look. I mean, customers of APS  
12 vote for us. They don't, you know, have to petition to  
13 become a member of some organization and then be taxed in  
14 order to vote for us. They're just voters, and we  
15 represent those constituents.

16 In this situation, we would be transferring those  
17 individuals to your electrical district, and it sounds to  
18 me like the vast majority of them would then have to go  
19 through some additional process.

20 MR. COYLE: No.

21 CHMN. MAYES: No? In order to vote for the  
22 board?

23 MR. COYLE: I think what Mr. Froetscher was  
24 telling you, and I don't have any basis for disputing his  
25 statistics, is that two-thirds of the people who would be

1 transferred already vote for ED-3.

2 CHMN. MAYES: I was confused. So one-third of  
3 the individuals do not vote.

4 MR. COYLE: Because their land --

5 CHMN. MAYES: They would have to petition and  
6 they would have to be taxed.

7 MR. COYLE: Yeah.

8 CHMN. MAYES: And how much is that tax?

9 MR. COYLE: I'm sure we have that information. I  
10 don't have it off the top of my head.

11 CHMN. MAYES: Okay.

12 MR. COYLE: Hang on. Somebody is coming forward.

13 CHMN. MAYES: Okay. So while we're getting that  
14 information, Mr. Froetscher, can you tell us why you  
15 think it's in the best interest of your customers to be  
16 transferred out of your service territory and into ED-3?

17 MR. FROETSCHER: Yes, Chairman. Thank you.

18 If I may, there's been half a dozen things kind  
19 of tossed around here, and so I'll try to address them as  
20 best I reasonably can.

21 Regarding your question to Staff and why it is in  
22 the public interest to go forward with this transaction,  
23 first, let me establish that I don't think the issues from  
24 an understanding standpoint are technical in nature. The  
25 Commission seems to clearly understand we've got

1 commingled facilities. And from an operational and  
2 planning and safety and other perspective, there are  
3 technical issues there, but I won't belabor that point.  
4 I'll trust that you will come back to that if you have  
5 questions.

6           Some of the other issues were anticipated by  
7 Staff, were anticipated by the company, and were  
8 anticipated by ED-3. None of us came here blindly  
9 thinking that the jurisdictional issue and the lack of  
10 jurisdictional authority for the 38-, 3,900 customers to  
11 be transferred would not be mentioned or would not be  
12 brought up. It's a fair question. It's a legitimate  
13 question.

14           You know, I work for an organization that has  
15 1.1 million customers, and you as a body provide a safety  
16 net for those customers to ensure that we do the right  
17 thing. ED-3 has indicated that their board will perform  
18 that same role. I have no lack of confidence in their  
19 ability to do so. But yes, I guess to address your  
20 concerns, it takes a leap of faith on your part in order  
21 to take that step and hand them over. But we and Staff  
22 and the district clearly knew the jurisdictional issue  
23 would be a concern.

24           We also as we move through this process recognize  
25 from Staff input and feedback, and from informal feedback

1 from some of your staffs and yourself, that distributed  
2 rooftop solar would be an issue, and the district has  
3 moved forward in that regard; net metering would be an  
4 issue, and the district has put a policy in place for  
5 that; things like budget payments, the ability to pay  
6 bills from a direct deposit standpoint from banking  
7 accounts would be issues and ED-3 has moved forward and  
8 enacted a lot of those things. They do not have a DSM  
9 program. They do not have an energy efficiency program  
10 that is on scale with APS.

11 APS does not offer up these 3,500 customers or  
12 3,800 customers as a blind abandonment. The Chairman was  
13 good enough to sit in on some of the hearings back in  
14 April and asked me at that time why I was willing to do  
15 this. And the answer, quite simply, is because I do  
16 believe it is in the best interests of the customers in  
17 this portion of western Pinal County. There are  
18 inconsistencies between the two organizations in terms of  
19 our policies and procedures. There are minor  
20 discrepancies as it relates to pricing.

21 From a system planning standpoint, it is not a  
22 matter to be understated that it is difficult for two  
23 utilities to coordinate to plan for an area and to make  
24 the proper steps to ensure that our customers, our mutual  
25 customers and your constituent, are taken care of. I

1 don't like walking away from 38- or 3,900 customers and  
2 wouldn't be willing to do so unless I felt that the  
3 district was equipped to handle them.

4 One of you asked, I guess it was Commissioner  
5 Pierce, alluded to other districts and what this may mean  
6 moving forward, and there are other electrical districts  
7 in Pinal County. ED-3 No. 2, the Hohokam Irrigation and  
8 Drainage District. There's Electrical District No. 4. In  
9 western Maricopa County there's ED-7, ED-8, other  
10 enterprises like this.

11 And it was alluded to the fact that there's been  
12 tension between APS and the districts for a long time, and  
13 we've had our share of tension. There is no doubt about  
14 that. ED-2 and ED-4 are retail providers in Pinal County  
15 today. They are not jurisdictional to you. That doesn't  
16 make this transaction right. But we, as co-inhabitants of  
17 Pinal County, have tried to work over the years to try to  
18 ensure, (a) that customers were receiving, from whatever  
19 provider they were taking service from, the best service  
20 possible, and then to the degree that we collaborate and  
21 gain efficiencies and things of that nature that we've  
22 done.

23 This is a natural progression of this step on the  
24 west side of Pinal County and in the general Maricopa  
25 County -- or Maricopa, Town of Maricopa area.



1           The other districts that I've mentioned are not  
2 in the retail electricity provision basis per se. They do  
3 serve irrigation and irrigation loads only. They are part  
4 of what is called a majority district settlement with APS  
5 that limits them to irrigation-related load. And when we  
6 talk about those other districts, other than ED-3, ED-2,  
7 ED-4, and Hohokam, I believe that they're satisfied with  
8 their lot in life and they are not in the poles and wires  
9 business the way ED-3 is, the way ED-2 is, the way ED-4  
10 is.

11           So it is those three districts principally where  
12 we have this issue. Our most significant geographic point  
13 of conflict is in the ED-3 service territory, although  
14 we've got some spots with ED-2 and ED-4 as well where  
15 there are inefficiencies and there's duplication of  
16 facilities.

17           There's a couple of other just -- just items that  
18 I would ask you to consider. In the seven years since  
19 ED-3 has taken back its system and expanded their service  
20 offerings to residential, commercial, and industrial  
21 customers, the number of APS customers served in this area  
22 has remained virtually constant at this 3,800 or 3,900  
23 customer level.

24           And the reasons are a couplefold. One, we are  
25 dependent upon the ED-3 system to extend new service. And

1 so if ED-3 isn't willing to give us a point of  
2 interconnect, in other words, give us permission to attach  
3 to their system to serve new customers, frankly, we have  
4 little recourse. I suppose we could take it back to the  
5 FERC in Washington and go through an extended, protracted  
6 legal hassle, but the expense and the adversarial  
7 relationships that develop out of that simply do not make  
8 that a prudent step in our estimation.

9           And so again, I don't want to diminish the  
10 responsibilities that we have to the 38-, 3,900 customers  
11 in question here, but the likelihood of APS adding new  
12 customers moving forward is virtually nil.

13           And so when we talk about the absence of energy  
14 efficiency, DSM, and other programs for customers, we  
15 really are focused on the 38- or 3,900 customer who are in  
16 place today. I believe we have about a half a dozen  
17 customers that take advantage of our green solar rates,  
18 not very many. We don't have anybody queued up, although  
19 there's been a couple or three or four customers asked  
20 about rooftop solar. And the proposed agreement you have  
21 in front of you provides for a 90-day plus 12 month  
22 grandfathering period through which those customers can  
23 continue to take advantage of the financial incentives  
24 associated with the rooftop solar that APS offers, and  
25 beyond that ED-3 has incorporated essentially a mirror

1 program.

2           There's been a commitment on the district's part  
3 to keep the 205 customers who take E-3 service from APS --  
4 that would be our low income service -- whole,  
5 quote/unquote, if, in fact, you approve this transaction  
6 and those customers are transferred over to ED-3. And  
7 while I can't speak, then, to the absence of the service  
8 offerings that you have mentioned and that you would like  
9 to see the district provide, please bear in mind that  
10 there are 17,000 customers whom they already serve who  
11 also do not have those service offerings.

12           And again, I don't mean to offer that because it  
13 makes it right. It doesn't. But our principle  
14 obligation, or at least my principle obligation is to  
15 ensure that the 38- or 3,900 customers who I currently  
16 serve are treated, essentially, as fairly as possible and  
17 hopefully held harmless. And I think in many respects we  
18 have achieved the majority of those objectives.

19           CHMN. MAYES: Ms. Grabel.

20           MS. GRABEL: Thank you, Chairman Mayes. Meghan  
21 Grabel on behalf of Pinnacle West and APS.

22           I just wanted to add one thing, that there's a  
23 very strong potential for stranded costs in this area.  
24 There's a strong likelihood that if a new customer wants  
25 to have ED-3 serve it as opposed to APS, ED-3 could simply

1 bypass the system that we already have in place. That's  
2 incurring additional costs not just because we would have  
3 stranded facilities, but because we would have to remove  
4 those costs. And those are costs that would be incurred  
5 not just by those customers residing in this area but that  
6 are borne by all APS customers. So I offer that as one  
7 more thing for your consideration.

8 CHMN. MAYES: Commissioner Newman.

9 COM. NEWMAN: Madam Chairman, to that point, just  
10 I wonder. This is in and around Maricopa, and so the  
11 stranded costs are associated with what fact? I mean, and  
12 how much are we talking about here?

13 Because what came to mind when your principal was  
14 talking, the principal spokesperson, was that there must  
15 be something in it for -- I'm trying to figure out what is  
16 in it for APS? What is in it for ED-3?

17 And the gist of what I got from APS is that what  
18 is in it for APS is that they're jettisoning some  
19 customers that are going to become costly to them because  
20 ED-3 really owns the lines in there, and it's just a big  
21 nightmare for you. And now -- now, just let me put it  
22 that way.

23 Now, the stranded cost thing, that's also some  
24 analysis that I don't understand, and so you need to just  
25 tell us about it, because I want to really understand what

1 is going on here. You're not doing this out of  
2 benevolence. You're doing this to, I think, get rid of  
3 some bad costs. So talk about these costs. Or maybe I'm  
4 wrong. This is one way that people analyze situations.

5 MR. FROETSCHER: Madam Chairman --

6 COM. NEWMAN: And be as honest as you can with  
7 me.

8 MR. FROETSCHER: -- Commissioner Newman, thank  
9 you. You won't have any trouble with me being honest.

10 COM. NEWMAN: Okay. What is in it -- what is in  
11 it, you know, for you?

12 MR. FROETSCHER: I'll tell you what's in it for  
13 APS. What is in it for APS is essentially to avoid costs  
14 that we otherwise might incur, and I'll come back to that  
15 in just a moment.

16 But I do want to make it clear, the 38- to 3,900  
17 customers we're proposing to transfer, as I indicated  
18 earlier, we've been serving for many, many years.

19 COM. NEWMAN: Right.

20 MR. FROETSCHER: It's not a very urban area,  
21 because the district, the 17,000 customers they serve, are  
22 the customers who have come in in planned area  
23 developments and subdivisions like Rancho El Dorado that  
24 have developed over the last six or seven years.

25 COM. NEWMAN: Right.

1 MR. FROETSCHER: Frankly, most of our 4,000  
2 customers in this area are scattered home sites, one-sies,  
3 two-sies, in what is still very much rural western Pinal  
4 County.

5 We've been serving them for years and are not  
6 dissatisfied with that service. On a cost basis is that  
7 our most economic area to serve? No, Commissioner, it's  
8 not. Urban Phoenix is. But it's not any less economic  
9 down there than it is to serve Bisbee, or Douglas, or  
10 Parker, or Globe, or Winslow, or Holbrook, or many of the  
11 other rural parts of the state that we have.

12 What Ms. Grabel alluded to from a stranded cost  
13 standpoint is something that's a little bit different than  
14 what you as Commissioners normally think of in terms of  
15 stranded cost, but the issue is essentially this. Because  
16 the district has the preponderance of the electrical  
17 facilities in this area, including the 69kV system, the  
18 distribution substation, and the 12kV feeders, we are left  
19 with simply what are called split ends off of that main  
20 system.

21 And when the district began the venture into the  
22 full-blown retail energy business seven years ago, there  
23 were, for example, a number of dairies, a couple of our  
24 largest loads in this area, who were taking service from  
25 ED-3, who came to the district and said, we would like to

1 take your service. Their prices, meaning the district's  
2 prices at the time were less than APS's.

3 And dairies are affiliated with the agricultural  
4 community, so there was some synergies there and they  
5 wanted to move over to ED-3. ED-3 clearly was willing to  
6 take them. We faced two alternatives. One is to sell the  
7 existing poles, wires, transformers, that APS has invested  
8 in that area and is being used to serve that dairy, sell  
9 that asset to the district as this transaction is  
10 proposing, or the district will merely parallel build in  
11 duplicate, similar set of facilities to connect the dairy,  
12 and the dairy will take service from ED-3 anyway. In  
13 which case they will quickly make a phone call to me  
14 indicating that they would like me to remove my facilities  
15 since they're no longer used and useful to the dairy,  
16 because the dairy is now taking service from ED-3.

17 We have about 300 customers who have taken that  
18 stance and that approach over the last seven years and  
19 whom we have voluntarily transferred service from a retail  
20 perspective from APS to ED-3.

21 That, in microcosm, is in a sense one of the  
22 underlying issues here is that there are \$13 million in  
23 APS assets out there that while not every customer will  
24 transfer -- I wouldn't be naive enough to try to convince  
25 you of that -- a good many will and will continue to do

1 that over time. And eventually, APS will face the burden  
2 of having to go out and remove facilities that have  
3 literally been abandoned because the customers have chosen  
4 to take ED-3 service, and ED-3 has elected, absent a  
5 decision in this case, to build parallel facilities to  
6 serve them.

7 COM. NEWMAN: And in the underlying case in front  
8 of the judge, this issue of losing commercial customers  
9 was discussed in the record?

10 MR. FROETSCHER: At the April hearing?

11 COM. NEWMAN: Yes.

12 MR. FROETSCHER: Yes, sir.

13 COM. NEWMAN: Okay. Thank you. That answers  
14 some of the questions of what is in it for me, or what is  
15 not in it for me. I'm losing customers. I need to  
16 jettison because they're serving power at a lower cost.

17 But they may not be serving -- one of the reasons  
18 for that lower cost may be because the Corporation  
19 Commission may have done things like renewable energy  
20 standard or other things that may have raised your costs  
21 to them. You could not lower your rate to them. You  
22 couldn't compete with ED-3, so you want to sell the asset.

23 MR. FROETSCHER: Commissioner, the confluence of  
24 factors, including the potential for stranded distribution  
25 assets, the commingling of facilities that make operating,



1 planning, construction, maintenance, consistency in  
2 policies, confusion on its customers, all of those issues,  
3 frankly, led us to the conclusion, particularly since APS  
4 is disadvantaged by not having the physical -- the  
5 preponderance of physical assets in the area. We're not  
6 going to be growing our customer base out there; ED-3 is.

7 And so you take that confluence of factors, and,  
8 frankly, this was the best solution we could come up with.  
9 Again, we're not happy about asking 38-, 3,900 customers  
10 to move to another provider. We simply have tried to do  
11 our best to ensure that they are being placed in a  
12 position where they will be taken care of and are in --  
13 are held in as much a harmless position as possible.

14 COM. NEWMAN: I appreciate your candor. And I  
15 just want to say, I'm still having problems, and I agree  
16 with Commissioner Kennedy that I -- you know, it's those  
17 issues juxtaposed against the jurisdictional issues, and  
18 what I guess the term of art is called one of the cardinal  
19 rules right here that we should be considering about -- be  
20 considered in the regulation is discrimination and  
21 nondiscrimination with regard to jurisdiction.

22 And so we have to take that real business fact on  
23 the ground that you're losing customers and it's hard for  
24 you to service in this area, versus losing customers to  
25 our jurisdiction, which could cause other problems. It

1 really is an important issue. And given the other  
2 irrigation districts in this area, I think we should  
3 really think this one over.

4 MR. FROETSCHER: Madam Chair, may I?

5 CHMN. MAYES: Yes.

6 MR. FROETSCHER: One other item, I guess, and  
7 maybe I could ask for your help on this. You are aware, I  
8 believe, that the company undertook a pretty extensive  
9 communications effort relative to this transaction with  
10 our customers, including a letter as recently as a week  
11 and a half ago that we hustled out to those 38-, 3,900  
12 customers advising of today's hearing.

13 And I don't know if any customers have shown up,  
14 and could I ask you to ask that question?

15 CHMN. MAYES: Yeah, and I apologize. I don't  
16 have any public comment slips on this matter. But are  
17 there any customers here who wish to speak to this item of  
18 ED-3 or APS?

19 (No response.)

20 CHMN. MAYES: No. And I know from attending the  
21 hearing that you also had a website devoted to this issue  
22 and have done extensive communications about it. So that  
23 part of it doesn't concern me as much.

24 Commissioner Pierce.

25 COM. PIERCE: Yes, thank you. A question about

1 has there been any polling or any -- you know, as I ask  
2 that question, I think about polling with the APS  
3 customers about moving to ED-3. Have there been comments?

4 Well, actually, have you taken a poll, or is, in  
5 fact, the reality that people are moving to ED-3 when they  
6 figure out they have an option to do that, or they can  
7 request that and if it's in the scheme of things they can  
8 do that, do you consider that kind of a poll?

9 MS. GRABEL: Madam Chair, Commissioner Pierce, we  
10 have, as Mr. Froetscher alluded to, exhaustively notified  
11 customers. We've held open houses at which customers have  
12 come and inquired of APS and expressed their concerns, and  
13 we've taken a tally of the number of customers and the  
14 content of their response who have attended and who have  
15 called on our customer service base or have -- or customer  
16 service line. We have noted things from on the website.  
17 And only 5 of the 63 customers that have replied have  
18 expressed any concern about being transferred to ED-3.

19 The rest, the questions were along the lines of  
20 are there comparable offerings, and were essentially  
21 agnostic about the transfer once they understood that they  
22 would be receiving generally the same level of service now  
23 given the commitments that ED-3 has made at this point.

24 COM. PIERCE: You know, I -- what is the rate  
25 differential now between APS and ED-3?

1 MS. GRABEL: Madam Chair, Commissioner Mayes,  
2 currently it's pretty negligible. It's in the record.

3 CHMN. MAYES: Page 16, I believe, of the order.

4 COM. PIERCE: Okay. Well, here is the -- as I  
5 think this through, we're at a -- well, I'm going to say  
6 comparable rate difference at the moment. But this is  
7 going to get -- it's going to get over time, with the  
8 renewables and so on, we're going to see some separation.

9 And that's why I think that if you're ever going  
10 to recover the cost of this infrastructure, now is the  
11 time. Because over time, I suspect there's going to be  
12 some demand on the other side. I think people are  
13 cognizant of what they're paying in rates. And given a  
14 choice, they might move to a company that has less rates.  
15 And over time, APS with the renewable standard is going to  
16 have some higher rates.

17 And if ED-3 or the other electric districts don't  
18 make those moves, if those things do not occur, if there's  
19 not statutory interference into that, then I think people  
20 will see the writing on the wall and elect to make that  
21 move. And if that happens en masse, without this  
22 transaction taking place, then ultimately APS will be  
23 caught holding the bag.

24 And I think you're probably looking ahead and  
25 saying, this is reality, this is what appears that could

1 happen unless ED-3 mirrors up these rate with comparable  
2 programs. Isn't that kind of the case?

3 MS. GRABEL: Madam Chair, Commissioner Pierce,  
4 that's exactly the kind of policy analysis that has  
5 encouraged us to proceed with this application we believe  
6 is in the customers' interest and in our interests.

7 COM. PIERCE: Just facing a potential reality,  
8 which will in the long-run, if you do it now, it saves  
9 ratepayers money. Otherwise, you have duplication and  
10 you're going to have a whole lot of infrastructure doing  
11 nothing out there. And that is -- boy, we talk about  
12 stranded costs. That is really stranded, and I think  
13 that's probably the one time I have really heard that that  
14 it really applies to equipment that is going to sit there  
15 with nothing to do but be a place for birds.

16 MS. GRABEL: Commissioner Pierce, your point is  
17 well-taken. The current operations make it very  
18 inefficient and it increases costs throughout and it  
19 increases the potential for future costs, which can be  
20 avoided if we resolve this matter.

21 COM. PIERCE: Right. Thank you.

22 CHMN. MAYES: Commissioner Stump.

23 COM. STUMP: Thanks, Madam Chair.

24 Ma'am, you said something that struck me, and it  
25 was also in the -- what I read last night regarding the

1 issue of stranded costs and the abandonment of split ends  
2 and such, and the cost of removal.

3 Do you have any sense of what the cost might be  
4 to APS ratepayers?

5 MS. GRABEL: Of future stranded costs? I'm going  
6 to defer that to Mr. Froetscher.

7 COM. STUMP: Should the transfer not be approved?

8 MR. FROETSCHER: Madam Chair, Commissioner Stump,  
9 the estimated cost of removing all of our facilities that  
10 are under consideration for sale?

11 COM. STUMP: Yeah.

12 MR. FROETSCHER: Is that your question? We have  
13 not worked up an estimate on the man-hours or costs to  
14 remove those facilities.

15 COM. STUMP: But it sounds like it would be  
16 fairly substantial.

17 MR. FROETSCHER: Yes. I cannot recite these  
18 numbers from memory. We've, obviously, in arriving at the  
19 proposed sale price of \$13 million, done an inventory off  
20 of our GIS system relative to the number of poles,  
21 transformers, and other fixtures and assets that are in  
22 this geographic area and that we would be transferring to  
23 ED-3. And, you know, those numbers are pretty  
24 substantial, and they need to be in order to arrive at the  
25 \$13 million sales price.

1 COM. STUMP: And you had mentioned earlier the  
2 various manners in which ED-3 customers might be held  
3 harmless. One of them was the low income discount.

4 Can you recite for me again the other ways in  
5 which they would be?

6 MR. FROETSCHER: The other portions of the other  
7 kinds of services offered by APS?

8 COM. STUMP: Yeah. You had recited a list, and I  
9 wonder if you could kindly do that again.

10 MR. FROETSCHER: Yes, sir, Commissioner. Happy  
11 to. And again, these were some of the questions that the  
12 55-some-odd folks who contacted us during the last  
13 15 months or so asked about.

14 But it was things like an Equalizer or budget  
15 payment plan. Did the district have one of those in  
16 place? What we call our Sure Pay program, i.e., the  
17 ability to pay a bill direct deposit from the bank. It  
18 was rooftop residential solar for a couple or three or  
19 four customers. It was net metering, which the district  
20 also has turned around and developed. Residential  
21 time-of-use rates. Obviously, you're familiar with our  
22 multitude of residential offerings, and the district also  
23 offers time-of-use.

24 We had questions about whether or not the  
25 district would insist upon a security deposit for

1 customers connecting service with them, and whether there  
2 would be a transfer fee or an initial hookup fee. And the  
3 district has been good enough to work with the company  
4 where these 3,900 customers will not be subject to a new  
5 security deposit for starting service with ED-3, nor will  
6 there be a service connect fee or transaction fee  
7 associated with it.

8 Looks like Meghan is steering me. The only other  
9 item I think I mentioned was online bill payment was also  
10 of interest to them.

11 COM. STUMP: Thanks, Madam Chair.

12 CHMN. MAYES: Sure. And I guess I would disagree  
13 with Commissioner Pierce and his characterization of APS's  
14 rates going higher as a result of the renewable energy  
15 program. I, frankly, think that they will stabilize under  
16 a cap and trade program, and I think that's been proven  
17 time and time again. And those utilities that have less  
18 renewable energy in their portfolio will suffer in the  
19 next 20 years under cap and trade, but that's another  
20 matter.

21 Mr. Coyle, you have a rooftop solar program now  
22 that I guess didn't exist before you filed this  
23 application; is that correct?

24 MR. COYLE: Yes, Madam Chair.

25 CHMN. MAYES: Okay. And that rooftop solar



1 program, does it have an overall cap? I know that the  
2 amounts that you allow per solar system are capped, but  
3 does the program itself have a limitation?

4 MR. COYLE: Bear with me just a second.

5 (A brief discussion was held off the record.)

6 MR. COYLE: The practical answer is that the  
7 funding available under the program is limited to the  
8 amount of money we collect in a given year.

9 CHMN. MAYES: How much are you collecting and  
10 how?

11 Sure, yeah.

12 MR. WONER: Good afternoon. I'm Jeff Woner with  
13 K.R. Saline & Associates, and I helped ED-3 with a lot of  
14 this design of these programs.

15 They currently have a renewable energy adder very  
16 similar to the way that APS does. Theirs was set at 1 mil  
17 back when APS was right around that a couple of years ago  
18 when we first looked at it. APS's adjustors are kind of a  
19 moving target and we try and keep up and maintain  
20 comparability, but the program is almost identical.

21 APS collects a finite amount of money that they  
22 have to spend in a year. We heard discussion about that  
23 with TEP and their CFLs today. ED-3 is the same way.  
24 It's on a first-come, first-serve basis.

25 CHMN. MAYES: Okay. Well, what is the -- at

1 1 mil, do you know what the total amount collected is?

2 MR. WONER: You know, I think our guess when we  
3 came up with it was around \$150,000 a year that it would  
4 collect. And in the menu of items that that money could  
5 be used for was approved by the board that basically had  
6 anything to do with renewables. They have a compact  
7 fluorescent replacement program that they try and  
8 incentivize it. All you have to do is send in your  
9 receipt that you purchased it, and they'll credit you on  
10 your bill. The expense for that comes out of that fund.

11 CHMN. MAYES: So it's also your energy  
12 efficiency. That's not a renewable energy program.

13 MR. WONER: It's actually that, too, yes. Yeah.

14 CHMN. MAYES: Okay. And are you helping ED-3  
15 design its energy efficiency programs? The record says  
16 that you are in the process -- ED-3 is in the process of  
17 designing energy efficiency programs.

18 MR. WONER: I would direct any questions of those  
19 to Ken Saline from our office who has worked on that more  
20 than I have. I tend to work on the financial side of  
21 things. But I will tell you that a lot of the programs  
22 that ED-3 -- I know it's been portrayed that a lot of  
23 these things were done because of this process, and I  
24 would say that's not necessarily true. That the customers  
25 have come to the board on levelized bill payments, those

1 kinds of things, and requested it and ED-3 has done that.

2 I would expect that as solar became more  
3 prevalent, and it's in the paper every single day, that  
4 customers would have eventually come to ED-3 and said,  
5 hey, we want a program, too, and the board would have  
6 looked at it.

7 CHMN. MAYES: Right. Okay. Well, Mr. Saline,  
8 can you come forward? One last question.

9 And then I'm going to suggest to my colleagues  
10 that we hold this matter, because I'm not comfortable yet  
11 either. And this is an important public policy issue, and  
12 I'm looking to be made comfortable about this, I really  
13 am, and I'm just not there yet. I've got to be honest  
14 with you. And if I had to vote today, I would vote no.  
15 And so I -- I don't think that's the result that you're  
16 looking for, but it's my constitutional duty to vote in  
17 the public interest, and right now I'm not there.

18 So Mr. Saline, can you tell us what you're doing  
19 on the energy efficiency side of things?

20 MR. SALINE: Sure. My name is Ken Saline, and I  
21 am the managing partner of K.R. Saline & Associates. I've  
22 been working with Electrical District No. 3 since  
23 approximately 1984.

24 Our primary program, we filed an integrated  
25 resource plan in the work papers. And while that document

1 may be a little bit strange in today's environment, a few  
2 years ago integrated resource planning was quite a  
3 prevalent approach. And we've actually used that over the  
4 years to make a lot of wise investments. Of course, a lot  
5 of those are energy efficiency.

6 We've had substations that were 65 years old,  
7 high losses. We've been focusing on getting those type of  
8 equipment replaced, getting new lines in, making the  
9 energy system more efficient to save everybody money.

10 CHMN. MAYES: Right. No, Ken, I know. Ken,  
11 let's just cut to the chase. What are you doing for the  
12 customers?

13 MR. SALINE: For the customers, what we have done  
14 initially, when ED-3 built the system, is we had been  
15 working on putting an automated metering infrastructure in  
16 place. It's very expensive.

17 CHMN. MAYES: AMI?

18 MR. SALINE: An AMI system, and we have the  
19 backbone system in place today. Mr. Stacy is installing,  
20 I think, the last two or three substations, which are  
21 where these APS customers would be.

22 The problem we've had with rolling out, quote,  
23 the retail aspect of it is that since it's been done on a  
24 substation by substation basis, you couldn't provide a  
25 program that would avail itself to all customers. So from

1 ED-3's standpoint, they've made probably well over half a  
2 million dollar investments.

3 I think if we asked Mr. Froetscher, APS is not  
4 near as developed on its AMI system as ED-3 is, because  
5 our entire system will be able to do AMI for every  
6 customer. We will have the backbone system, including the  
7 software, the computers, all the way down to the customer  
8 meter enabled. It's power line carrier systems, so it  
9 goes over the wire and so it's secure. We have Homeland  
10 Security getting into the internet and how we have all of  
11 these problems. The AMI system is a secure backbone. So  
12 we have the backbone. We have the substation. As we  
13 rebuilt each substation, we put the new equipment in.

14 Why haven't we moved faster? Because, quite  
15 frankly, as the development happened, if the substations  
16 need to be rebuilt, it didn't make any sense to put the  
17 equipment in until we built it.

18 CHMN. MAYES: Okay.

19 MR. SALINE: So we have the backbone in. And as  
20 we get all of our customers then enabled, meaning we have  
21 the backbone in all of the substations, then we can start  
22 looking at superpeak pricing. We can start looking at  
23 demand load control with these devices, \$100 per meter.  
24 We could go in and put a demand control unit on each home,  
25 and we can now control their air conditioner, their hot

1 water heater or other devices. We can also provide  
2 internet capabilities where we can empower the information  
3 on real-time pricing in all of those models.

4 CHMN. MAYES: Okay. When are you developing the  
5 CFL light bulb program? When are you developing an HVAC  
6 rebate program? When are you developing a direct install  
7 home program? When are you developing a net zero home  
8 program? When are you developing all of these programs  
9 that are available to APS customers that won't be  
10 available to ED-3 customers, or the 3,800 -- at the very  
11 least, the 3,800 APS customers that we're being asked to  
12 transfer?

13 MR. SALINE: The realistic answer, if you want  
14 the truth, is you can only afford to do so much if you  
15 have 17,000 customers. I mean, I would love to have ED-3  
16 hire me to go build all of these wonderful programs. But  
17 the problem is you're only going to have one or two  
18 customers avail themselves for, quite frankly, millions of  
19 dollars of consulting expenses. It doesn't have the bang  
20 for the buck.

21 CHMN. MAYES: You think one or two customers  
22 would avail themselves of the CFL light bulbs? Really?

23 MR. SALINE: ED-3 has had a CFL program in place,  
24 and I think they've had --

25 CHMN. MAYES: Well, it's not like theirs, though.

1 I have read the record.

2 MR. SALINE: It would be similar to the gentleman  
3 that presented the coupon program.

4 CHMN. MAYES: It's a coupon program.

5 MR. SALINE: It's a coupon-type program. They  
6 provide the receipt and they get full reimbursement.  
7 That's up to the customers to choose if they do that or  
8 not.

9 CHMN. MAYES: Yeah.

10 MR. SALINE: That's one program. But quite  
11 frankly, for a smaller utility, we have to wait until the  
12 big guys do theirs. We have to wait for technologies to  
13 be proven, and we have to see those programs. We don't  
14 have the privilege with 17,000 customers to be  
15 experimenting around.

16 We can make solid investments in infrastructure.  
17 We've had to pay \$150 million to rebuild five new  
18 substations. We built a 230kV system. We've had to put  
19 the priorities where they had to be.

20 CHMN. MAYES: I guess my problem is this feels  
21 like a gigantic experiment for us, too. And I'm not  
22 willing to make that experiment right now.

23 So if my colleagues would like to move forward  
24 with a vote today, we can do that, or we can hold the item  
25 for a month or two and see if ED-3 is able to provide

1 additional information that makes the Commission more  
2 comfortable about this transaction.

3 COM. NEWMAN: If I had my druthers, I would like  
4 to hold it and get more information from ED-3 about future  
5 plans. I understand the plight of the small company.  
6 It's the same plight that we're having to negotiate with  
7 the rural co-ops who don't have the same customer base as  
8 well.

9 This is a very unique situation, but I -- this is  
10 a -- this case is a very important precedent. And without  
11 further information and some sort of -- not ex parte  
12 colloquy but within the procedures, I would like to see  
13 some more proposals from the company. And I would like to  
14 have our utility staff working with them on some of these  
15 proposals. But I vote to delay this matter for a couple  
16 of months.

17 CHMN. MAYES: Okay. What is the druthers of my  
18 other colleagues? Is that okay? I do intend to -- I do  
19 think the Commission needs to make a decision on the  
20 application.

21 Judge Rodda, is there -- there are no time-clock  
22 issues here?

23 ALJ RODDA: Chairman Mayes, I'm not aware of any.

24 CHMN. MAYES: Okay. Commissioner Kennedy, I'm  
25 sorry. I interrupted you.



1 COM. KENNEDY: Oh, no, Madam Chairman. As I  
2 expressed earlier, I would like to see it held today for a  
3 future calendar.

4 CHMN. MAYES: Okay. And I think that's what  
5 we'll do. I appreciate the fact that you are all here,  
6 and I appreciate all of the work that's gone into this  
7 matter. I know that it has been years and years, perhaps  
8 even decades in the making, but I think we've expressed  
9 our concerns, or I have, and hopefully they can be  
10 addressed. Maybe they can't be. And if that is the case,  
11 then so be it, but we will hold this.

12 COM. PIERCE: Madam Chair, I want to ask the  
13 Judge a question.

14 CHMN. MAYES: I'm sorry.

15 COM. PIERCE: Judge Rodda, are the bill  
16 comparisons that you have included in Paragraph 75 and 76  
17 inclusive of all surcharges and adjustors?

18 ALJ RODDA: I'm going to defer that question  
19 since it was from an APS exhibit.

20 MS. GRABEL: Madam Chair, Commissioner Pierce,  
21 we'll provide an updated bill impact analysis that's a  
22 little more current that will include all of the  
23 adjustors, et cetera. I'm not sure offhand. Perhaps  
24 Mr. Woner can address that point.

25 MR. WONER: I can absolutely. They include all

1 of the adjustors at the time of the hearing. APS has  
2 since been allowed a DSMAC adjustor that was not part of  
3 that, and their transmission cost adjustor has quadrupled.  
4 So it's gone up substantially.

5 COM. PIERCE: Thank you.

6 MR. WONER: So those numbers don't reflect that.

7 COM. PIERCE: I appreciate that.

8 COM. NEWMAN: Madam Chair.

9 CHMN. MAYES: Commissioner Newman. And then I  
10 think that we've decided to move on.

11 COM. NEWMAN: I know that we have. I just also  
12 wanted to get some information regarding this bill  
13 differential, speaking of your integrated resource plan.

14 Listen, I'm not -- you're the experts at your  
15 company, but I do know just by the nature of what you are,  
16 which is originally you're an irrigation district, that  
17 you're taking advantage of a lot of hydro power. And that  
18 is probably, as much as any variable, the biggest reason  
19 for the difference in cost associated with the utility  
20 bill. So let's call it -- if it's black, it's black. It  
21 has nothing to do about whether you're offering solar or  
22 not. The reason why your bills are lower is because you  
23 are relying on hydro power.

24 So I just wanted that part of the record. And if  
25 I'm wrong, you can tell me I'm wrong. I doubt if anybody

1 can tell me I'm wrong on that one.

2 CHMN. MAYES: Well, I'll tell you you're right.  
3 I have reviewed the record, and you're absolutely right.  
4 They do have the benefit of having a lot of hydro in their  
5 portfolio, which is a good thing, and no one begrudges  
6 them that.

7 COM. NEWMAN: No.

8 CHMN. MAYES: Okay. We're moving on to item  
9 No. 19. I mean, Item No. 20. I'm sorry.

10 MS. GRABEL: In this additional period before  
11 this happens, the Open Meeting occurs again, are you  
12 expecting anything from APS? What exactly are you  
13 expecting?

14 CHMN. MAYES: I'm expecting you to file anything  
15 you think is necessary to add to the record and answer  
16 questions that were posed and that remain outstanding from  
17 the Commissioners.

18 MS. GRABEL: Thank you.

19 COM. NEWMAN: Madam Chair, if I may add, my  
20 biggest issue is -- I would like to even see a brief on  
21 it -- but why should we create more of a discriminatory  
22 pattern in regulatory -- in energy regulation in Arizona?  
23 Why should we do that as opposed -- and then almost a  
24 grid. You know, that is a huge variable to me. It's  
25 going to be hard to get me to vote yes on it. So why

1 should I do that? What have other states done?

2 MS. GRABEL: That's helpful. Thank you very  
3 much.

4 CHMN. MAYES: Okay. Moving on to U-20.

5 (Agenda Item U-19 recessed at 3:30 p.m.)

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1 STATE OF ARIZONA )  
2 ) ss.  
3 COUNTY OF MARICOPA )

4 I, MICHELE E. BALMER, Certified Reporter  
5 No. 50489 for the State of Arizona, do hereby certify that  
6 the foregoing printed pages constitute a full, true and  
7 accurate transcript of the proceedings had in the  
8 foregoing matter, all done to the best of my skill and  
9 ability.

10

11 WITNESS my hand this 2nd day of July, 2009.

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*Michele E. Balmer*  
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MICHELE E. BALMER  
Certified Reporter  
Certificate No. 50489